

Message Text

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ACTION NEA-10

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 635

INFO AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY TEHRAN

AMEMBASSY BONN

USMISSION EC BRUSSELS

C O N F I D E N T I A L TOKYO 7438

E.O. 11652: GDS

TAGS: EAID, EGEN, EG, JA

SUBJ: EMERGENCY ECONOMIC ASSISTANCE TO EGYPT

REF: STATE 126646

1. SUMMARY. FOREIGN OFFICE IS MOVING AHEAD EXPEDITIOUSLY TO SECURE GOJ AGREEMENT ON EMERGENCY ECONOMIC ASSISTANCE TO EGYPT AND BELIEVES CHANCES ARE GOOD THEY CAN COME UP WITH \$100 MILLION OF COMMODITY AID BY SHIFTING SOME PROJECT FUNDS TO COMMODITY AID AND FINDING \$25 MILLION MORE. FINAL DECISION WILL BE INFLUENCED BY INTENTIONS OF OTHER DONORS AND EGYPTIAN AGREEMENT NEEDED TO SHIFT SOME PROJECT AID TO COMMODITY AID. FOREIGN OFFICE STRONGLY BELIEVES WORLD BANK SHOULD BE BROUGHT INTO PICTURE QUICKLY TO ESTABLISH DONORS GROUP AS MOST PRACTICABLE WAY TO CONFIRM DONORS' INTENTIONS, OBTAIN MAXIMUM HARMONIZATION OF TERMS AND TO INDUCE EGYPT TO ACCEPT CONDITIONS TO AID AS PROPOSED BY US WITH WHICH FONOFF CONFIDENTIAL

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IN COMPLETE AGREEMENT. FONOFF FULLY AWARE OF POLITICAL SIGNIFICANCE OF EMERGENCY AID AND, IN THIS CONTEXT, IS ANXIOUS TO LEARN CONTENTS OF US DISCUSSIONS WITH PRESIDENT SADAT. MORE DETAILS ON US CONTRIBUTION ALSO

REQUESTED. END SUMMARY.

2. ON JUNE 4, FOLLOW-UP APPROACH PER REFTTEL MADE TO FOREIGN OFFICE ON BOTH POLITICAL AND ECONOMIC SIDES. KIKUCHI, DEPUTY DG ECONOMIC COOPERATION BUREAU, AND SEZAKI, DEPUTY DIRECTOR FIRST ECONOMIC COOPERATION DIVISION, TOLD E/C MIN THEY WERE AWARE OF PARIS AND WASHINGTON DISCUSSIONS AND SAID STAFF WORK IS WELL ADVANCED WITH AIM OF SOLICITING CABINET APPROVAL FOR ADDITIONAL GOJ AID IN CY 75. STAFF LEVELS ARE RECOMMENDING APPROVAL OF YEN EQUIVALENT OF \$100 MILLION COMMODITY AID. WHILE INTENTION IS TO PUT MATTER TO CABINET ASAP, ACTUAL COMMITMENT OF FUNDS TO EGYPT NOT RPT NOT LIKELY UNTIL GOJ ABLE DETERMINE ACCURATELY INTENTIONS OF OTHER DONORS.

3. FONOFF BELIEVES WORLD BANK SHOULD BE BROUGHT INTO PICTURE AS QUICKLY AS POSSIBLE. FONOFF UNDERSTANDS IBRD IS CONTEMPLATING \$250 MILLION AID PACKAGE TO EGYPT (OF WHICH \$70 MILLION FOR COMMODITIES) DURING BANK'S NEXT FISCAL YEAR BEGINNING THIS JULY. FONOFF BELIEVES FORMATION OF DONORS GROUP DESIREABLE FOR NUMBER OF REASONS INCLUDING (A) PROBABILITY THAT THIS IS QUICKEST AND MOST AUTHORITATIVE WAY TO ASCERTAIN INTENTIONS OF OTHER MAJOR DONORS, PARTICULARLY SAUDI ARABIA AND IRAN (FONOFF REPS SAID THEIR EXPERIENCE INDICATES THIS INFO UNOBTAINABLE BILATERALLY BY JAPAN EITHER FROM THESE DONORS OR EGYPT); (B) IT IS BEST WAY TO ASSURE A COORDINATED RESPONSE BY DONORS WITH IBRD ITSELF DOING THE COORDINATING; (C) IT IS MOST EFFICIENT WAY--PERHAPS WITH IMF STAFF INPUT--TO GET BEST ESTIMATE OF EGYPT'S BALANCE OF PAYMENTS NEEDS FOR CY75 (THEY NOTED DISCREPANCY BETWEEN ONE BILLION DOLLARS MENTIONED BY US IN PARIS AND \$900 MILLION MENTIONED BY US IN WASHINGTON); AND (D) MOST IMPORTANTLY, IT IS PERHAPS ONLY REALISTIC WAY TO OBTAIN COMMITMENT BY EGYPT TO IMPLEMENT TWO CONDITIONS OF AID BY DONORS CITED BY US (WITH WHICH FONOFF AGREES) SINCE THEY BELIEVE EGYPT WILL BE RELUCTANT TO MAKE SUCH CONFIDENTIAL

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COMMITMENT BILATERALLY OR, IF MADE, THERE IS NO EFFECTIVE WAY TO CHECK ON IMPLEMENTATION.

4. DONOR GROUP UNDER IBRD AUSPICES SHOULD, IN FONOFF VIEW, BE ATTENDED BY AT LEAST US, JAPAN, SAUDI ARABIA, FRG, AND IRAN WITH DOOR LEFT OPEN TO OTHER POSSIBLE DONORS SUCH AS UK AND FRANCE SHOULD THEY CHOOSE TO PARTICIPATE. WITH RESPECT TO TIMING, FONOFF BELIEVES DONOR GROUP SHOULD BE CONVENED AS QUICKLY AS POSSIBLE AND CERTAINLY PRIOR TO ANNUAL BANK/FUND MEETING EARLY SEPTEMBER.

5. CONCERNING COMPOSITION OF PROSPECTIVE ASSISTANCE,

FONOFF REPS SAID CONCEPT OF ADDITIONALITY FOR JAPAN WILL HAVE TO BE MET BY COUNTING TOWARDS \$100 MILLION GOAL APPROXIMATELY \$75 MILLION BALANCE OF \$100 MILLION EQUIVALENT PROJECT AND COMMODITY AID PACKAGE OF 30 BILLION YEN PROMISED TO EGYPT DURING EGYPTIAN DEPUTY PM HATEM'S VISIT TO TOKYO FEBRUARY 74. THIS AMOUNT PRESENTLY REMAINS UNCOMMITTED BY INTER-GOVERNMENTAL EXCHANGE OF NOTES AND OF COURSE THUS UNDISBURSED. GOJ HAS NOT YET ADDRESSED QUESTION OF TERMS OF NEW AID IN DETAIL BUT KIKUCHI NOTED \$100 MILLION PACKAGE ORIGINALLY PROMISED TO HATEM WAS TO BE AT 3.5 0/0 INTEREST. MOST LIBERAL GOJ AID EXTENSION TIME PERIOD IS 30 YEARS WITH 10 YEARS GRACE AND HE SAW NO POSSIBILITY OF GRANTING EGYPT MORE LIBERAL TERMS THAN GOJ EXTENDS TO OTHER VERY NEEDY COUNTRIES, E.G. BANGLADESH.

6. KIKUCHI NOTED THAT GOJ HAS THUS FAR NOT RECEIVED ANY APPROACH FROM EGYPT FOR EMERGENCY AID. WHILE SUCH A REQUEST NOT RPT NOT ESSENTIAL FOR PROCEEDING WITH EFFORT TO OBTAIN APPROVAL WITHIN GOJ, A REQUEST FROM EGYPT WILL PRT WILL BE NECESSARY BEFORE ACTUAL COMMITMENT OF FUNDS. MOREOVER, DISCUSSIONS WITH AND AGREEMENT OF EGYPTIAN GOVERNMENT NECESSARY TO SHIFT PART OF PREVIOUSLY-PROMISED PROJECT AID TO COMMODITY AID.

7. ECONOMIC COOPERATION BUREAU OFFICIALS SAID THEY WERE AWARE OF REALITY OF EGYPT'S ECONOMIC NEEDS AND RECOGNIZE POLITICAL IMPORTANCE OF QUICK RESPONSE BY JAPAN AND OTHERS. CONFIDENTIAL

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SALEABILITY OF PROPOSED EMERGENCY AID TO OTHER MINISTRIES, HOWEVER, WOULD BE FACILITATED BY MORE INFORMATION ON EGYPTIAN GOVERNMENT'S OWN ATTITUDE TOWARD EMERGENCY AID. FONOFF ACCORDINGLY ANXIOUS LEARN WHATEVER US IN POSITION TO TELL THEM ABOUT SECRETARY KISSINGER'S TALKS WITH PRESIDENT SADAT. THEY ALSO EXPRESSED INTEREST IN AS MUCH DETAILED INFORMATION AS POSSIBLE ABOUT BREAKDOWN OF USES TO WHICH US GOVERNMENT'S PROPOSED \$250 MILLION AID WILL BE PUT.

8. MIDDLE EAST AND AFRICAN AFFAIRS DEPUTY DIRECTOR GENERAL MURATA TOLD POLITICAL OFFICER WHO MADE PARALLEL APPROACH THAT FONOFF UNDERSTOOD CLEARLY THE POLITICAL REASONS FOR EMERGENCY AID TO EGYPT. CLEAR NEED TO SUPPORT SADAT'S POSITION AT THIS TIME IS PRINCIPAL POLITICAL ARGUMENT CONTAINED IN FONOFF POSITION PAPER NOW BEING CIRCULATED TO OTHER MINISTRIES. WHILE MURATA HAS NOT DISCUSSED LOAN WITH OTHER MINISTRY REPRESENTATIVES YET, HE IS CONFIDENT THAT FINANCING WILL GO THROUGH.

9. ACTION REQUESTED. ADVICE SOONEST ON US ATTITUDE TOWARD DONORS GROUP UNDER IBRD AUSPICES AND ANY INFORMATION THAT

CAN BE PASSED TO FONOFF ON CONTENT OF RECENT
TALKS WITH PRESIDENT SADAT AND ANY FURTHER DETAILS
THAT MAY BE AVAILABLE CONCERNING US AID COMPOSITION AND
USES.
HODGSON

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